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El Salvador: Political, Economic, and Social Conditions and Relations with the United States

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Summary

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca faces the challenges of restarting a stagnating economy, passing legislation in a polarized political environment, and combating gang violence. Although 70% of Salvadorans approve of his overall job performance, a majority disprove of his decision to maintain a contingent of 380 Salvadoran soldiers in Iraq. The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, possibly through the proposed United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 17, 2004, El Salvador became the first country in Central America to ratify DR-CAFTA. On January 6, 2005, the U.S. government extended the Temporary Protected Status (TPS) of undocumented Salvadoran migrants living in the United States until September 9, 2006. This report will be updated as events warrant. For further information, see CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*.

Background

El Salvador, nearly the size of Massachusetts, is the smallest nation in Central America, and the most densely populated with 6.3 million people. With a per capita income of \$2,050, it is considered a lower middle-income country. In the past dozen years, El Salvador posted solid economic growth, held free and fair presidential and municipal elections, and survived a series of natural disasters. Significant problems remain, however, such as endemic poverty and rampant gang violence. These social problems, as well as a polarized political system, are inextricably linked to the country's devastating civil war that lasted throughout the 1980s.

Political Situation

El Salvador achieved notable stability and economic growth in the 1990s, but its growth has stagnated for the past six years, making it increasingly dependent on remittances from citizens living abroad.¹ A 1992 negotiated peace accord brought the country's protracted 12-year civil war, which had resulted in 75,000 deaths, to an end. The agreement formally assimilated the former guerrilla forces, the FMLN, into the electoral process. The current president, Antonio (Tony) Saca, was elected in March 2004, along with Ana Vilma de Escobar, El Salvador's first female Vice President, and was inaugurated as President on June 1, 2004, for a five-year term. He is the fourth consecutive, democratically elected president from the conservative ARENA party that has governed the country since 1989.

2004 Presidential Elections. In March 2004, Saca (ARENA), a well known businessman and sports announcer, won the Salvadoran presidential election handily with 57.7% of the vote. He soundly defeated his nearest rival, Shafick Handal, an aging former guerrilla and Communist party member, of the Farabundo Marti National Liberation Front (FMLN) who obtained 35.7% of the vote. Following far behind, Hector Silva, the former mayor of San Salvador and center-left coalition candidate of the Christian Democratic Party (PDC) and the United Democratic Center (CDU), received 3.9%, and Rafael Machuca of the center-right National Conciliation Party (PCN), received 2.7%. The failure of either of the two third-party candidates to receive even 5% of the vote reflected the continuing polarization of the country between the FMLN and ARENA.

Future of the FMLN. Throughout the campaign, Shafick Handal vocally opposed ARENA's privatization schemes, the dollarization of the economy, participation in DR-CAFTA, and sending Salvadoran troops to Iraq. Saca's first round victory was a serious setback and cause for assessment for the FMLN that had gone into the campaign with high expectations based on the party's strong performance in the March 2003 legislative and municipal elections. In those elections, the FMLN won more seats in the National Assembly than ARENA, the mayoralty of San Salvador for the third consecutive time, and seven of the 14 departmental capitals. Despite Handal's poor electoral showing, his orthodox faction of the FMLN, led by ex-guerrilla Medardo Gonzalez, prevailed over a more moderate candidate (the mayor of Santa Tecla, Oscar Ortiz) in the party's internal leadership elections that were held on November 7, 2004.

Legislative Record. President Saca is maintaining the free market economic policies of his predecessors, but is also looking for ways to increase tourism and to build up his country as a logistical hub in order to boost employment and economic growth. At his inauguration, boycotted by the FMLN, he called for dialogue to achieve consensus and invited the FMLN to the presidential palace for a meeting. Less than three weeks after his inauguration, President Saca crafted an agreement that led to the passage of the long-stalled 2004 budget, largely by agreeing to spend more funds on health and education sectors and to channel a larger share of the funds to the municipalities. The budget approval was followed quickly by an increase in the country's minimum pension, and, in late July, by the unanimous approval of the "Super Firm Hand" package of anti-gang

¹ El Salvador, is among a handful of Latin American countries currently relying on remittances for more than 10 % of its GDP. "All in the Family: Latin America's Most Important International Financial Flow," *Inter-American Dialogue*, January 2004.

reforms. Designed along the lines of former President Flores' "Firm Hand" plan passed in July 2003, the package includes reforms stiffening the penalty for gang membership to up to five years in prison and gang leadership to nine years. The anti-gang legislation was approved despite vocal criticisms by the United Nations and other religious and humanitarian groups that its tough provisions, especially those allowing convictions of minors under 12 years of age, violate international human rights standards.²

While some 70% of Salvadorans approve of President Saca's overall job performance, he will face a number of significant challenges in 2005. In October 2004, the FMLN, which controls 31 of 84 seats in the National Legislature, withdrew its support from the multi-party commission developed by President Saca to discuss important national social, economic, and political issues. Although Saca was able to muster enough support in the legislature from small parties to ratify the DR-CAFTA agreement over FMLN objections, he has been unable to pass the country's 2005 budget. The FMLN opposes President Saca's budget proposal as it would increase the country's foreign indebtedness. The party is also likely to oppose any presidential proposals for further privatization, or to change El Salvador's public health or education programs.³

Economic and Social Conditions

In the 1990s, El Salvador adopted a "neo-liberal" economic model, cutting government spending, privatizing state-owned enterprises, and adopting the dollar as its national currency. The economy averaged an annual growth rate of 4.5% between 1990 and 2001 but registered only 2% growth the past few years. While remittances and reconstruction projects remained steady in 2004, high oil prices and a slump in the maquiladora sector (large assembly plants operating in free-trade zones) kept growth at a modest 1.8% in 2004. Remittances now contribute 15% of El Salvador's annual GDP, and the country's economic success has become increasingly dependent on the success of the global economy.

El Salvador's recent economic stagnation may be linked to disruptions that resulted from Hurricane Mitch in 1998, two major earthquakes in 2001, a decline in coffee prices, and the slowdown in the U.S. economy following September 11, 2001. The earthquakes in particular caused the country significant damage, leaving more than 100,000 people homeless and tens of thousands without jobs. Total damage estimates were placed as high as \$3 billion.⁴ This series of natural disasters occurred as El Salvador's coffee industry was recording record losses when international coffee prices fell nearly 70% since 1997. Since the United States is El Salvador's most important trading partner, the U.S. recession and sluggish recovery in 2001- 2002 lowered the demand for Salvadoran exports. Although the U.S. economy has recovered since 2003, increasing competition for access to the U.S. market from Asian and other producers has limited the demand for Salvadoran exports.

² Stephen Temple, "Legislative Success for El Salvador's New President as Anti-Criminal Gang Reforms Passed," *WMRC Daily Analysis*, July 30, 2004.

³ Economist Intelligence Unit, "Country Report: El Salvador," January 2005.

⁴ USAID, "El Salvador Earthquakes: Final Fact Sheet (FY2001)," Sept. 7, 2002.

Although El Salvador has fared better than other countries in the hemisphere, when population increases are taken into account, the country's modest growth, averaging 2% or less for the past four years, is not enough to produce dramatic improvements in standards of living. With 48% of the population living in poverty and more than 25% reportedly feeling they must migrate abroad in search of work, some critics have argued that the average Salvadoran household has not benefitted from neoliberalism.⁵ Dollarization has raised the cost of living while its primary benefits, lower interest rates and easier access to capital markets, have not resulted in an overall decline in poverty levels. Between 1989 and 2004, poverty levels actually rose from 47% to 51%.⁶ With prices rising, privatization has been vigorously opposed. A nine-month doctors' strike, the longest in the country's history, ended in June 2003, when the privatization of the country's social security system was halted. Finally, the fruits of stable economic growth have not been equitably distributed as the income of the richest 10% of the population is 33.6 times higher than that of the poorest 10%.⁷

Gangs and Violence. Pervasive poverty and inequality, combined with 15% unemployment and significant underemployment, have contributed to the related problems of crime and violence that have plagued El Salvador since its civil war. As many as 30,000 Salvadoran youth belong to *maras* (street gangs).⁸ In 2004, the Salvadoran National Police estimated that 2,756 homicides were committed in the country, 60% of which were gang-related.⁹ These gangs are increasingly involved in human trafficking, drug trafficking, and kidnaping, and pose a serious threat to the country's stability.

Some have traced the origins of the *maras* to youth gangs formed in poor Latino neighborhoods around Los Angeles by refugees from the Central American civil wars of the 1980s who were then deported back to the region by U.S. immigration officials in the 1990s.¹⁰ Other scholars have noted that the high tolerance of violence among Salvadorans in general, as well as the widespread proliferation of firearms and explosives that has occurred since the war, have contributed to the gang problem.¹¹ Still others, especially organizations working with gang members in El Salvador, have asserted that it may not be gang membership in itself, but also extreme poverty, joblessness, and social exclusion

⁵ Joseph Contreras, "A Country's Rebirth," *Newsweek International*, July 21, 2003; U.S. Embassy San Salvador, "El Salvador's Economic Update: Second Quarter 20002," Sept. 16, 2003.

⁶ "Election 2004: El Salvador's Ruling Party Maintains Narrow Lead Over Former Rebel Leftists," *WMRC Daily Analysis*, Feb. 18, 2004.

⁷ United Nations, *Human Development Report 2003*.

⁸ Christ Kraul, "El Salvador Comes to Grips with Gangs," *Los Angeles times*, December 13, 2004.

⁹ "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse*, January 5, 2004.

¹⁰ Jeremy McDermott, "Criminal 'Mara' Gangs Pose Threat to Central America," *Jane's Intelligence Review*, June 1, 2004.

¹¹ Joaquín Chávez, "An Anatomy of Violence in El Salvador," *NACLA Report on the Americas*, May/June 2004.

that are contributing to the violence.¹² The Salvadoran government reports that its tough anti-gang legislation has led to a 14% drop in murders in 2004, as well as significant declines in carjackings and kidnappings.¹³

Relations with the United States

Throughout the last two decades, the United States has maintained a strong interest in the political and economic situation in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the armed FMLN insurgency. After the 1992 peace accords were signed, U.S. involvement in El Salvador shifted towards helping the government transform the country's struggling economy into a model of free-market economic development. Since that time, successive ARENA governments have maintained a close relationship with the United States. On December 17, 2003, El Salvador, signed the CAFTA, which later was changed to now include the Dominican Republic and is referred to as "DR-CAFTA," that, if approved by all parties to the agreement, could strengthen the economic linkages between all parties to the agreement. El Salvador has maintained a troop presence in Iraq since 2003 despite protests from the FMLN and terrorists threats against the ARENA government from an extremist group claiming to be linked to Al Qaeda.¹⁴

U.S. Foreign Aid. In the 1990s, total U.S. foreign assistance to El Salvador declined from wartime levels (\$570.2 million in 1985), and shifted from military aid towards development assistance and disaster relief. Military aid to El Salvador reached a peak of \$196.6 million in 1984, but fell to \$0.4 million a decade later. The United States provided \$37.7 million in assistance to El Salvador following Hurricane Mitch in 1998 and an additional \$168 million in reconstruction assistance since the two earthquakes in 2001. For FY2004, Congress appropriated an estimated \$42 million for El Salvador, and the Administration has requested \$33.2 million in assistance for FY2005. These amounts support a wide variety of Development Assistance and Child Survival and Health Programs, as well as 169 Peace Corps volunteers.

Counter-Narcotics Issues. Not a major producer of illicit drugs, El Salvador serves as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States. El Salvador, along with Ecuador, Aruba, and the Netherlands Antilles, serves as a Forward Operating Location for U.S. anti-drug forces. Since August 2000, U.S. forces based at Comalapa airport in San Salvador have successfully intercepted more than 50 metric tons of cocaine.

Support for U.S. Military Operations in Iraq. El Salvador immediately supported the United States following the September 2001 terrorist attacks and sent a first contingent of 360 soldiers to Iraq in August 2003 and a replacement contingent of 380 soldiers in February 2004. While all other Spanish-speaking countries have withdrawn

¹² Sarah Elizabeth Garland, "El Salvador: The Struggle to Reclaim Gang Members for Society," *Inter Press Service*, August 4, 2004.

¹³ *Ibid*, Kraul.

¹⁴ "El Salvador: Troops Head to Iraq Amid Threats from Extremists," *Latin American Regional Report*, August 17, 2004.

their troops, the first part of a third contingent of 380 Salvadoran troops departed for Iraq on August 19, 2004. A fourth contingent of troops could be sent to Iraq in February 2005.

Migration Issues. The United States responded to the recent natural disasters in El Salvador by granting Temporary Protected Status (TPS) to an estimated 290,000 undocumented Salvadoran migrants living in the United States. On January 6, 2005, the U.S. government extended the TPS of undocumented Salvadoran migrants living in the United States until September 9, 2006. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home roughly \$2.5 billion in remittances in 2004. The exodus of large numbers of poor migrants to the United States has also eased pressure on the Salvadoran social service system and labor market.

U.S. Trade and DR-CAFTA. The United States is El Salvador's main trading partner, purchasing 60% of its exports and supplying 50% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 17 free trade zones. Since the 1980s, El Salvador has benefitted from preferential trade agreements, such as the Caribbean Basin Initiative and later the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which have provided some of its exports, especially apparel and related items, duty-free entry into the U.S. market. As a result, the composition of Salvadoran exports to the United States has shifted from agricultural products, such as coffee and spices, to apparel and textiles. The government of El Salvador reportedly fears that although it would still benefit from the CBTPA and its proximity to the United States, fierce Asian competition could overtake its nascent textile industry when worldwide textile quotas are lifted in 2005.

Critics are concerned, however, that insufficient environmental and labor protections, as well as the likely inability of Salvadoran farmers to compete with U.S. agricultural producers, could offset any potential job or investment gains that may result from the agreement. Human Rights Watch recently reported that only 5% of the labor force in El Salvador is unionized, and even those that are unionized are minimally protected by a weak Ministry of Labor (MOL) and a corrupt judicial system.¹⁵ While DR-CAFTA has provisions providing for the enforcement of domestic labor laws and establishing cooperative ways to bring those laws up to international standards, its opponents are pushing for a renegotiation of the agreement that would require all signatories to establish and adequately enforce laws compliant with international labor standards.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify DR-CAFTA.¹⁶

¹⁵ "Deliberate Indifference: El Salvador's Failure to Protect Worker's Rights," *Human Rights Watch*, Vol. 15, No. 5(B), December 2003.

¹⁶ "El Salvador First to Ratify CAFTA, But Followers May be Few," *Noticen: Central American and Caribbean Affairs*, January 6, 2005.